

Washington State Economic Outlook

Presented to
Local Government Partnership

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June 4, 2014
Tumwater, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**

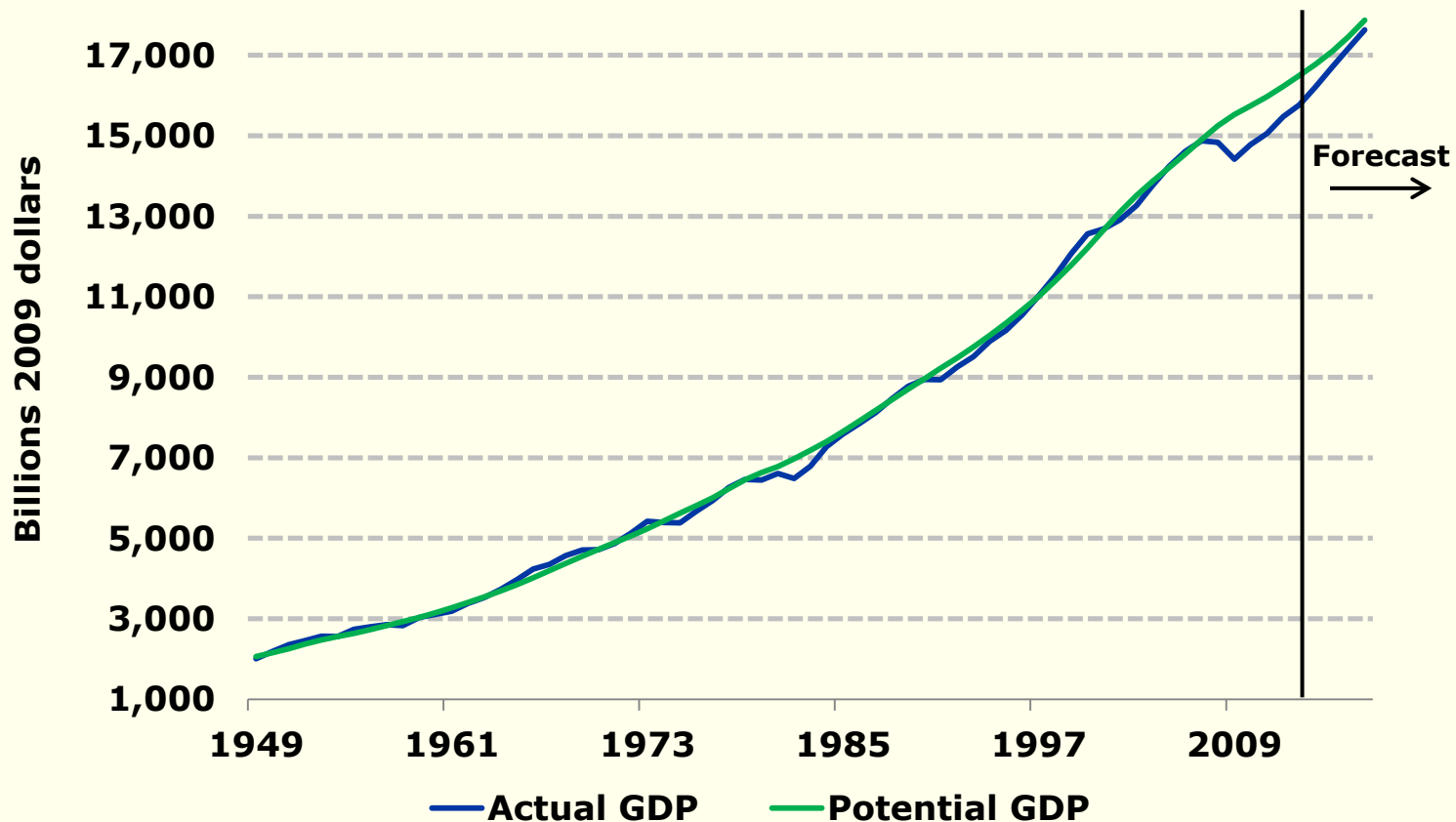


Summary

- The Washington economy continues to grow, but at a pace lower than the historical average
- Risks to the baseline are the potential for slower Chinese economic growth, the anemic recovery in the European Union, and possible disruptions to the housing recovery



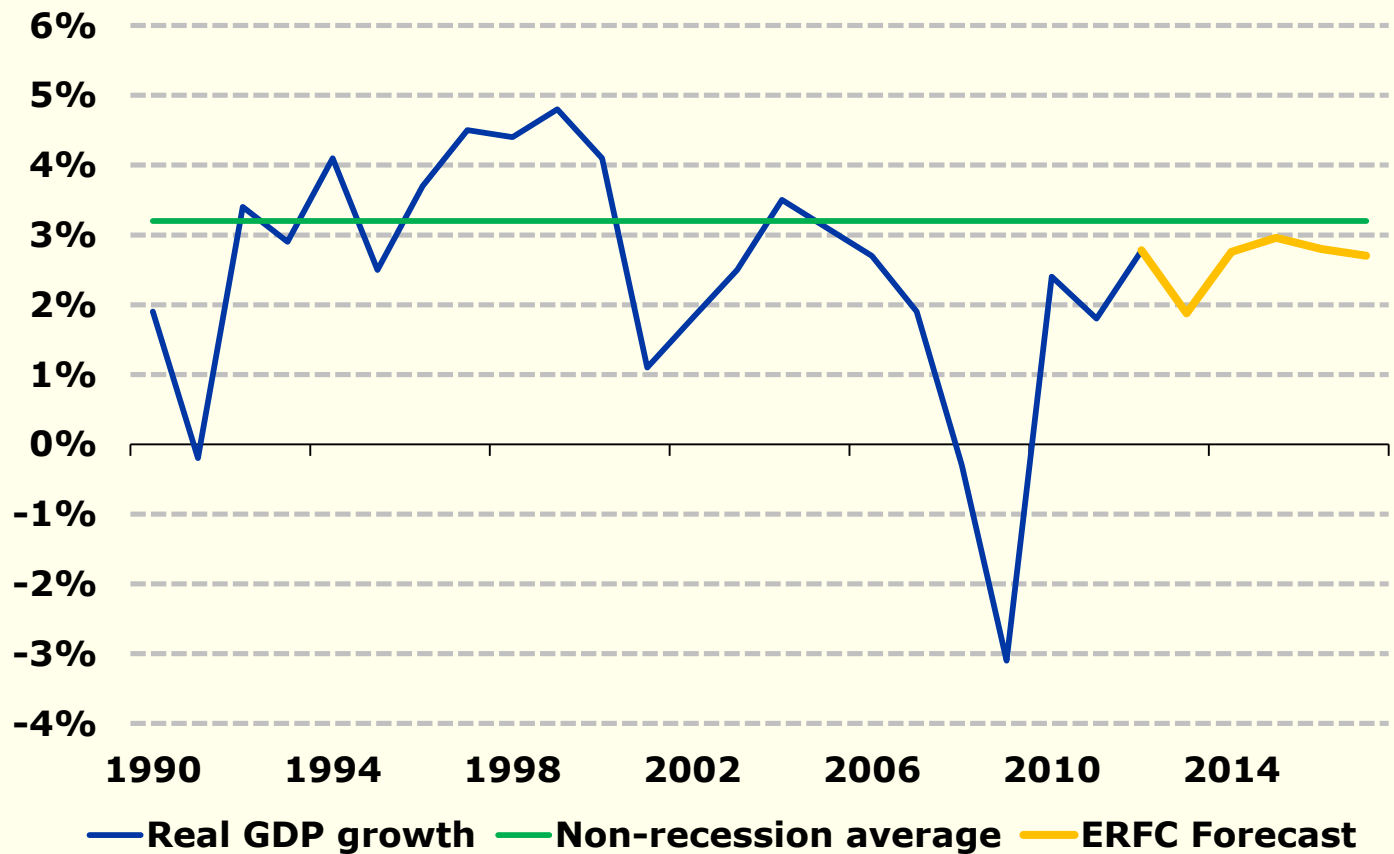
Great Recession was a notable deviation from potential economic activity





GDP growth forecasted to be near non-recessionary average in 2015

Non-recessionary average growth of 3.2% excludes 1990, 1991, 2001, 2007-2009



Source: U.S. Dept of Commerce, BEA, ERFC February 2014 Forecast

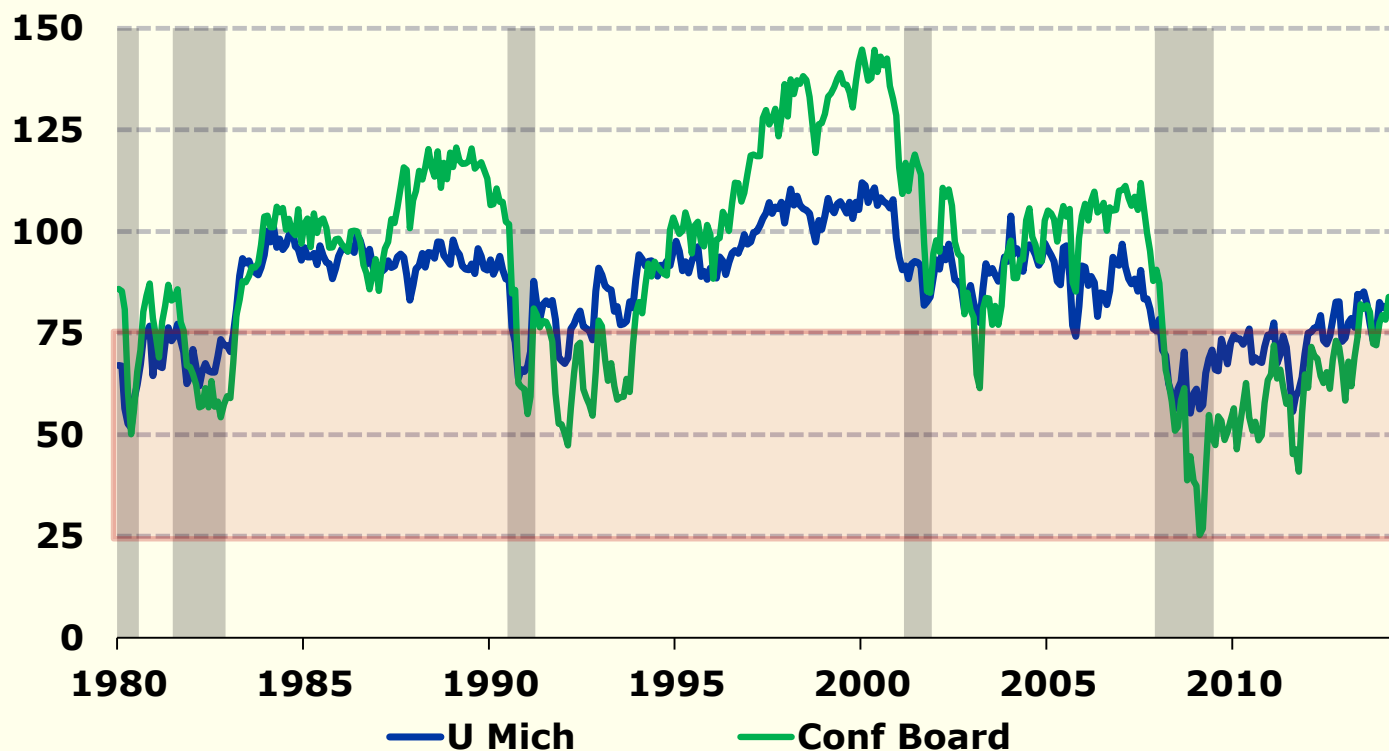


Consumer confidence has improved slightly over last three months

Index

Mich: 1966Q1 = 100, SA

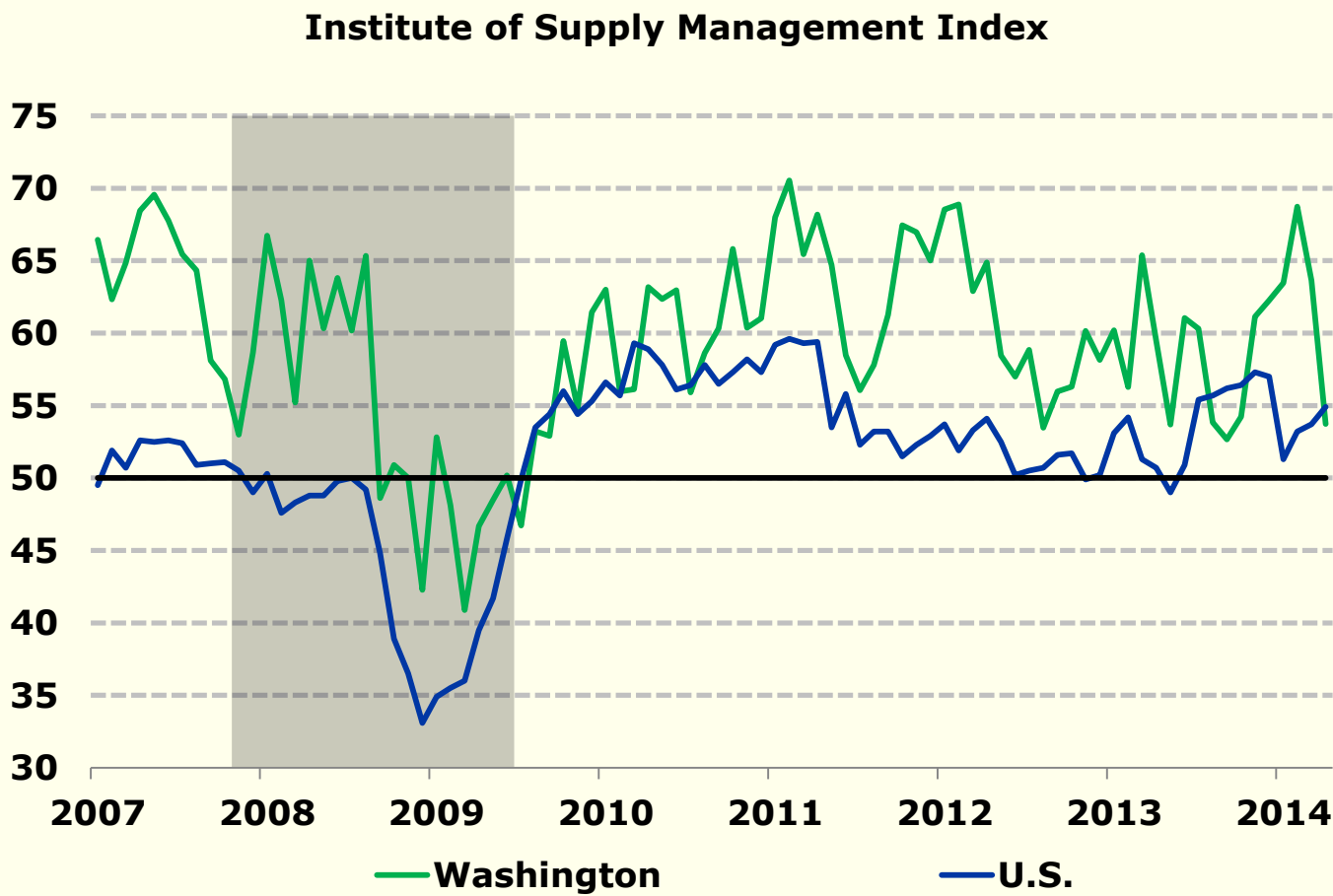
Conf Board: 1985 = 100, SA





The manufacturing sector continues to grow

An index value greater than 50 implies growth



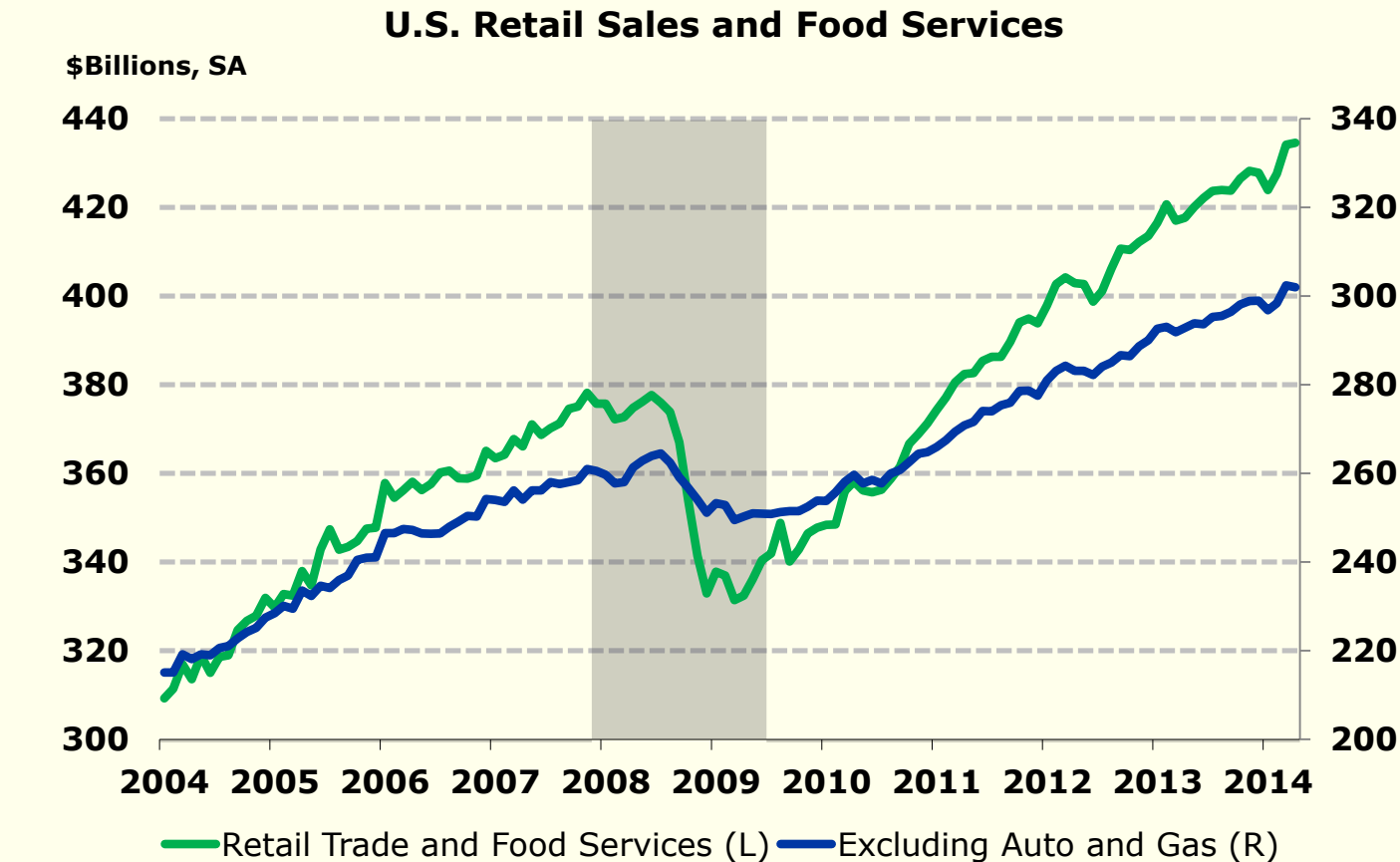
Source: Institute of Supply Management; data through April 2014



U.S. retail sales growth is moderate

Preliminary U.S. retail trade and food services sales were up 4.1% year over year in March and 4.0% in April

Excluding autos and gas, sales were up 3.6% year-over-year in March and 3.1% in April

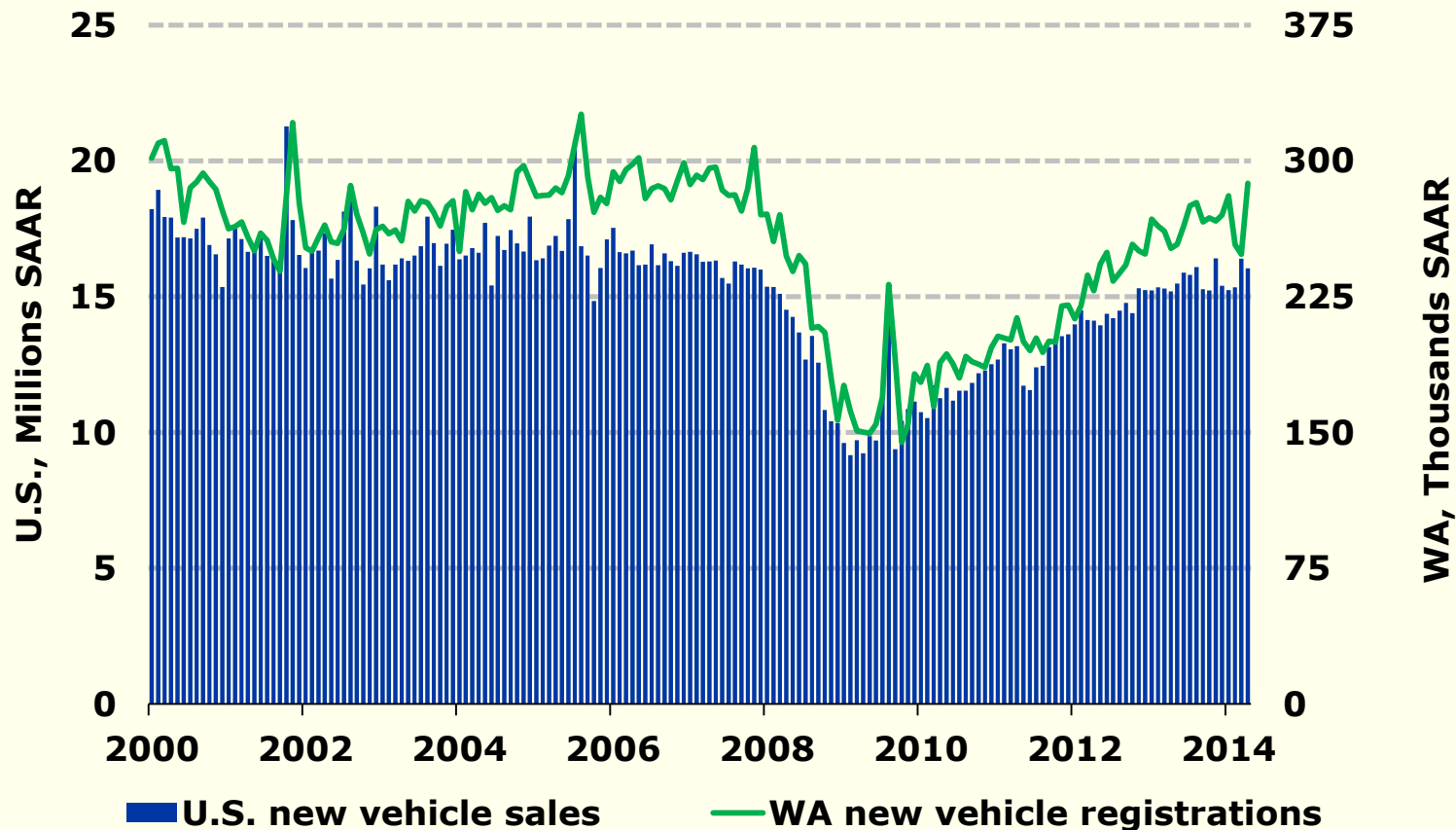


Source: U.S. Department of Commerce, Census Bureau; Data through April 2014 advance



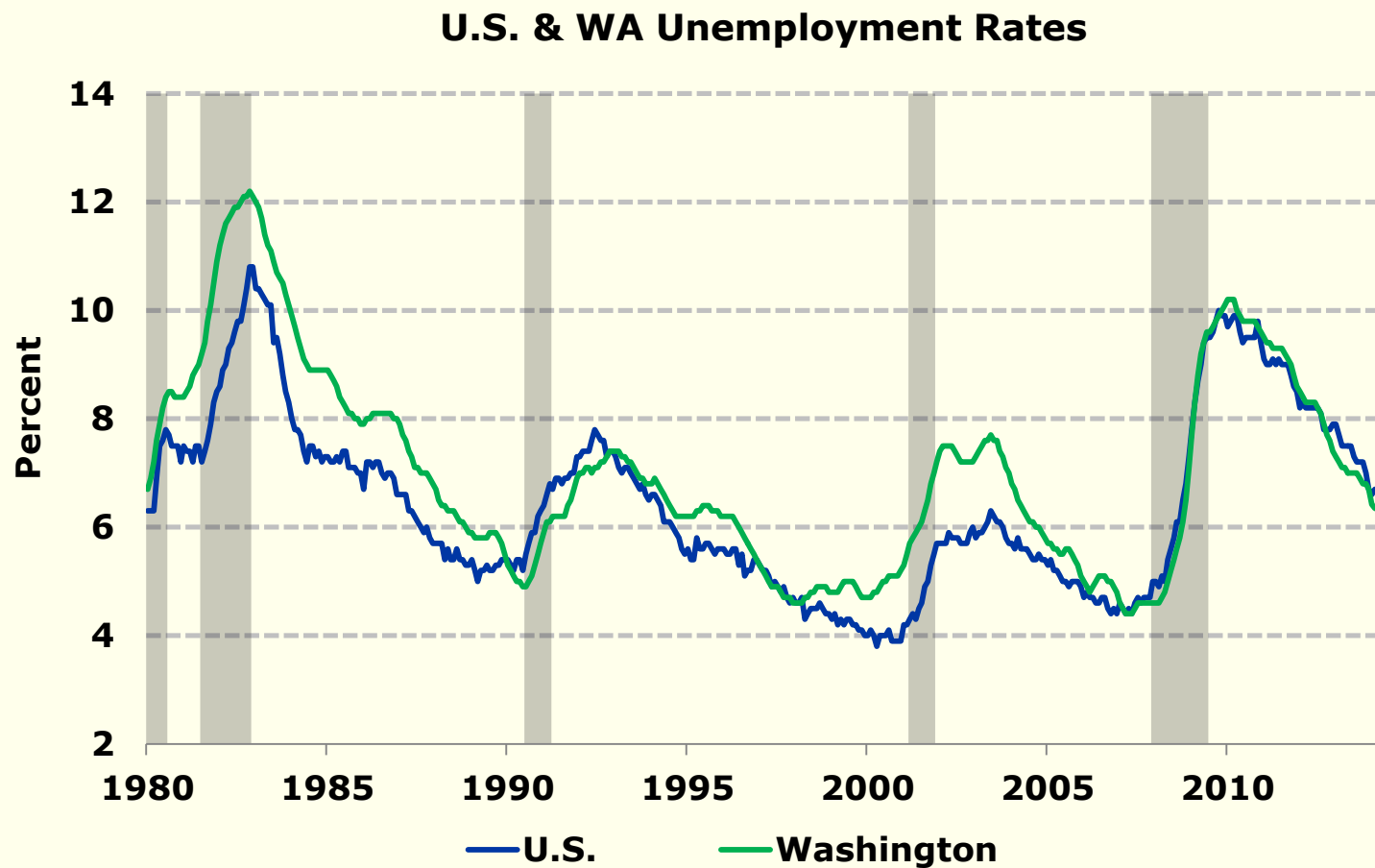
Vehicle sales trend has been positive but may be slowing

WA new vehicle registrations in April reached a post recession high





The unemployment rate continues to fall

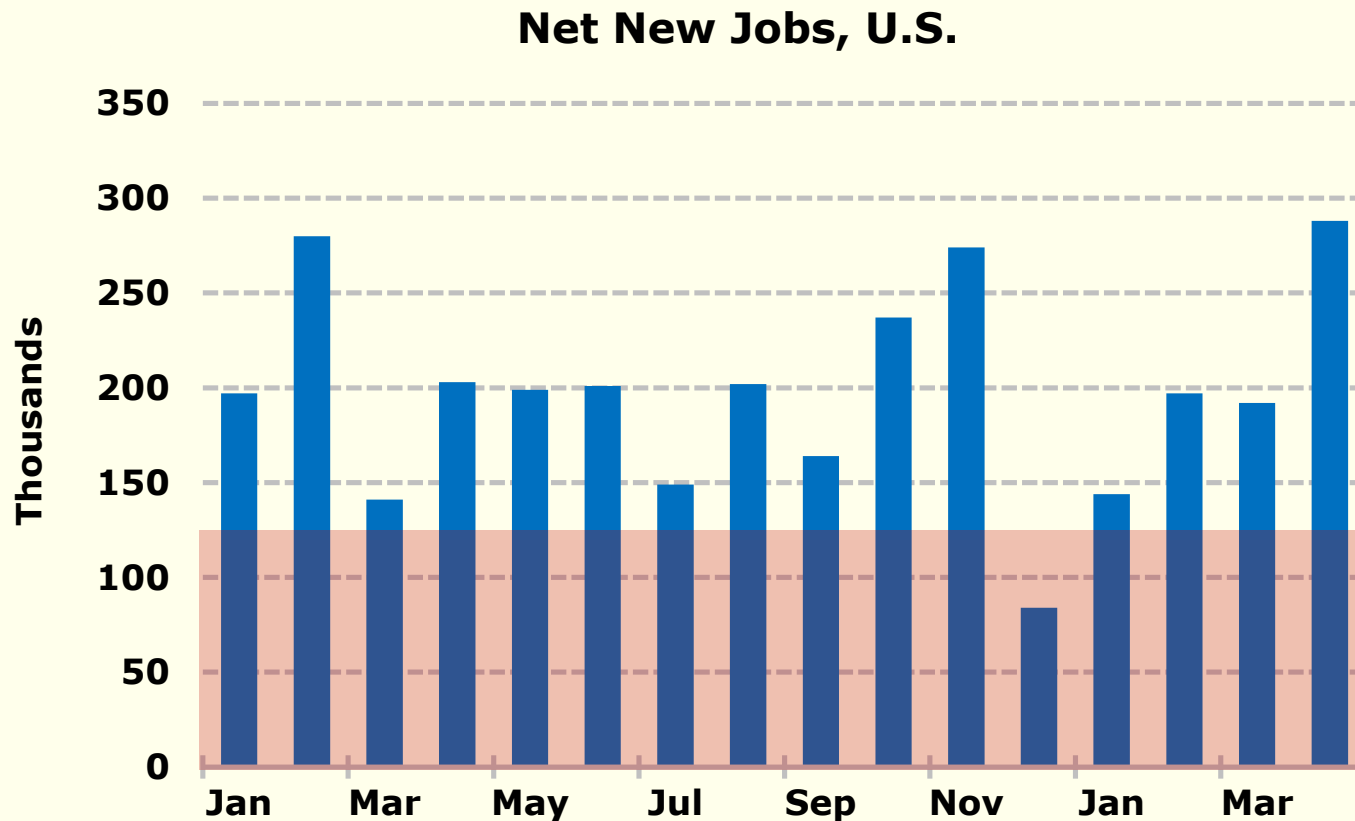


Source: Bureau of Labor Statistics, data through April 2014



Job growth remains modest

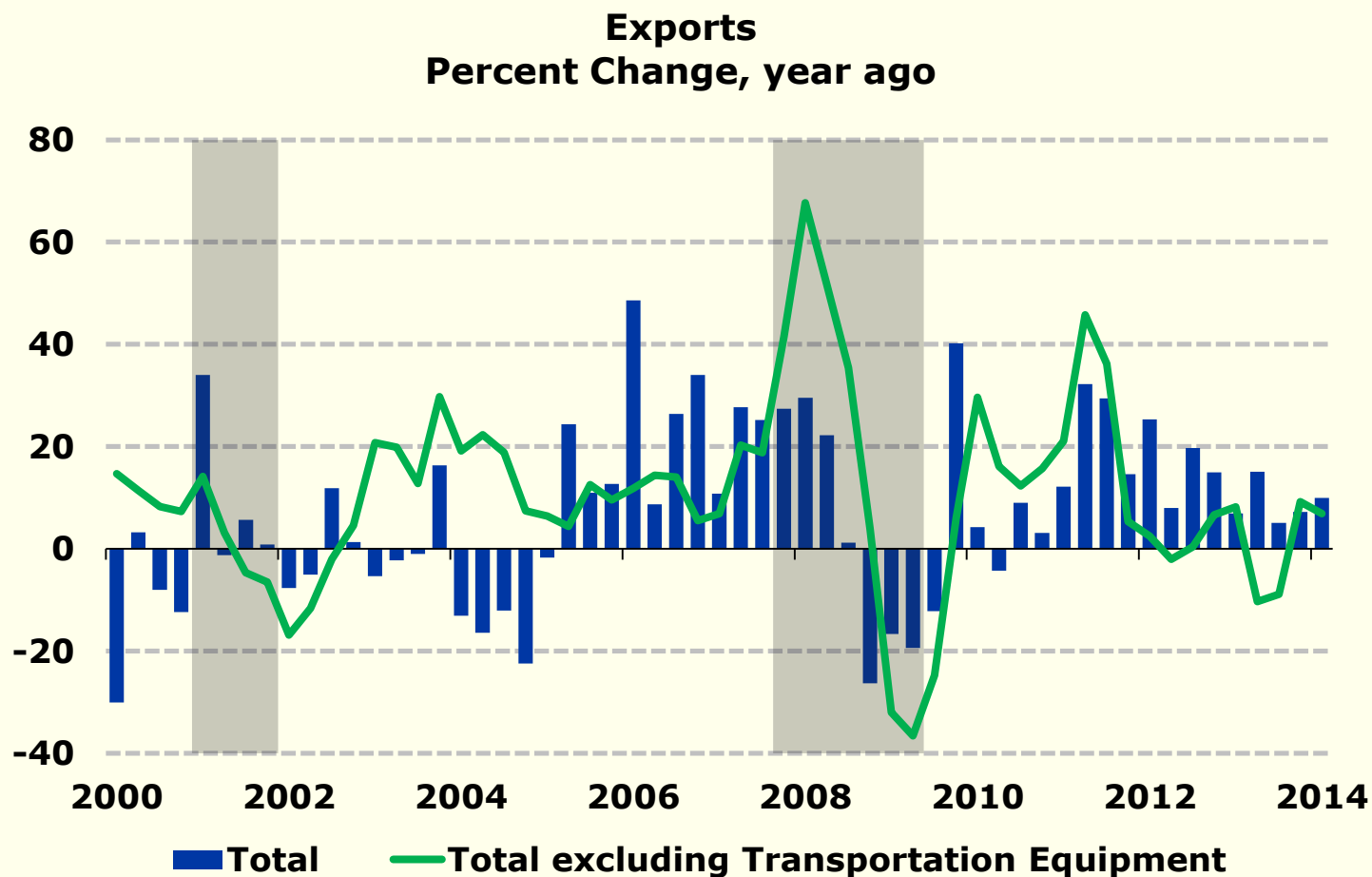
The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through April 2014



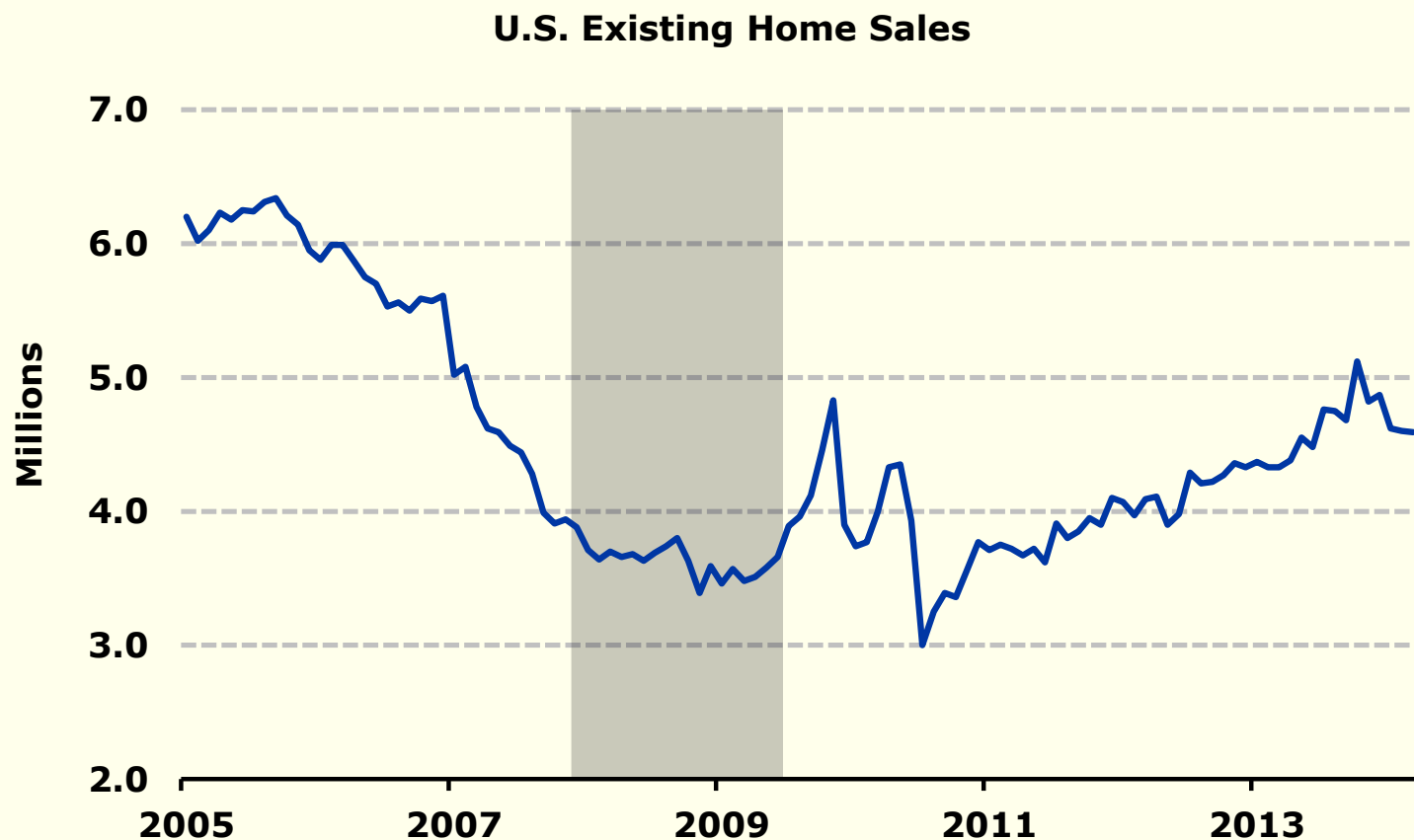
WA Non-transportation equipment export growth back in positive territory



Source: Wiser Trade Data; through 2014Q1

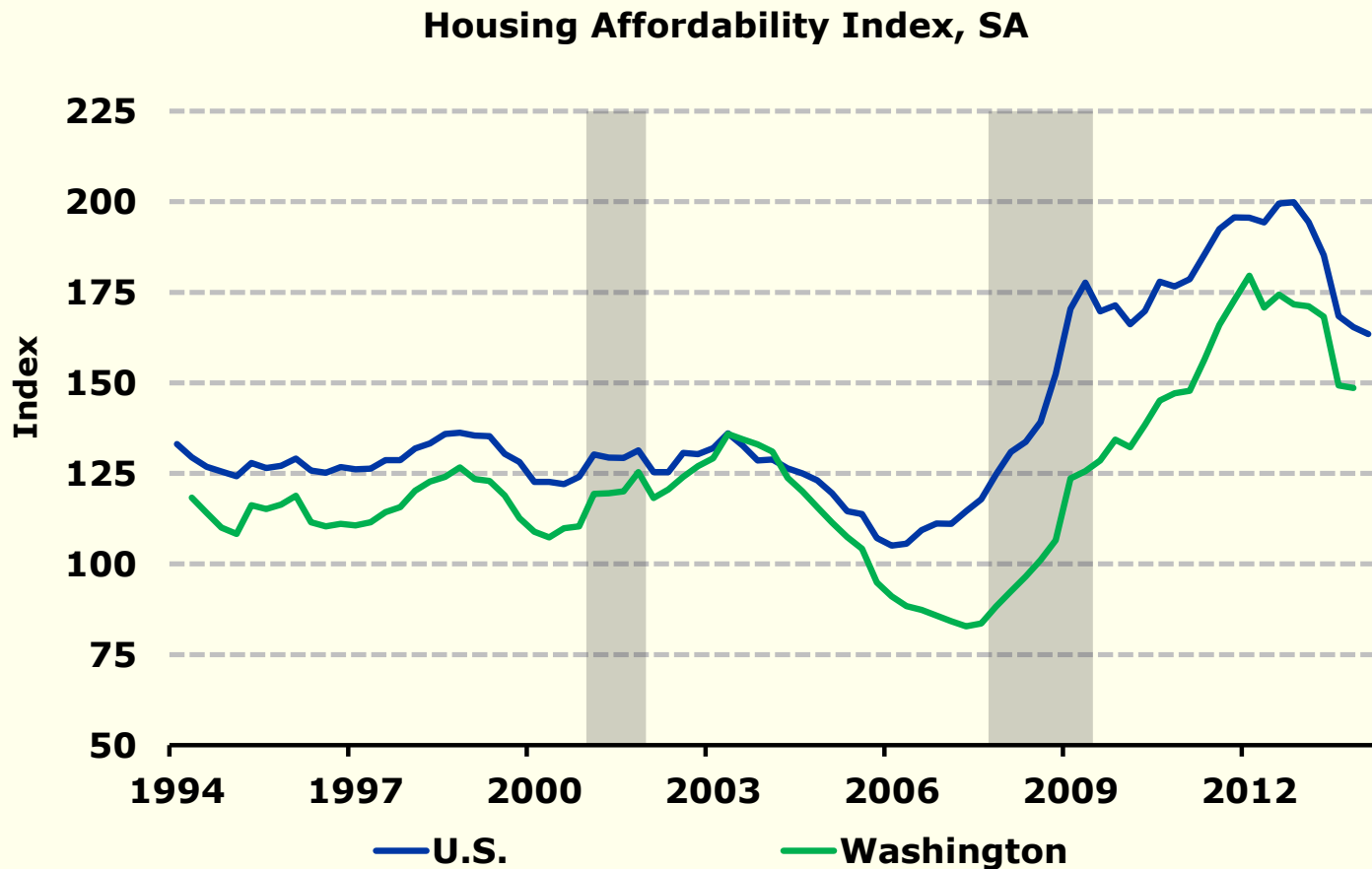


Home sales: an upward trend, but weaker in the last three months



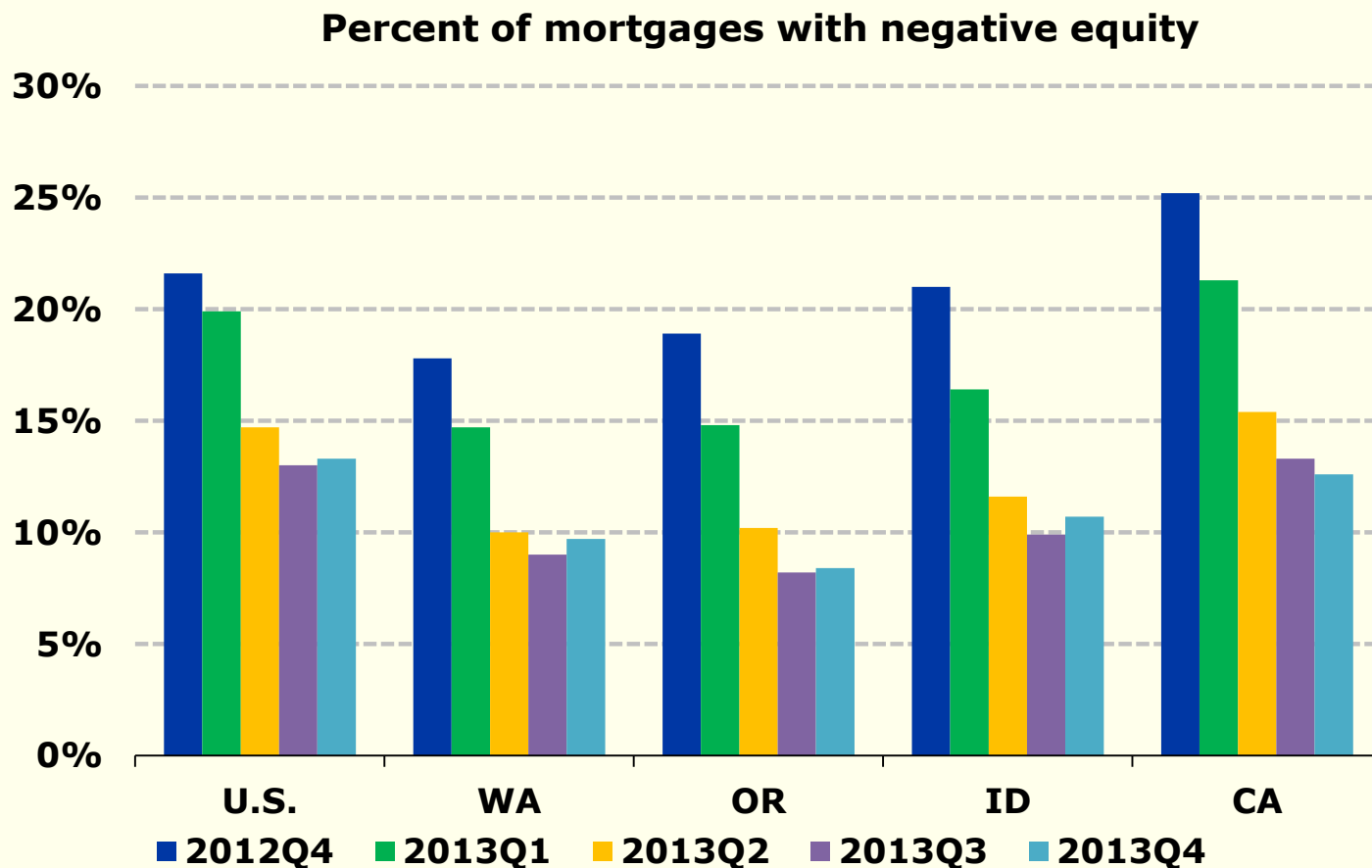


Rising mortgage rates and home prices have reduced affordability





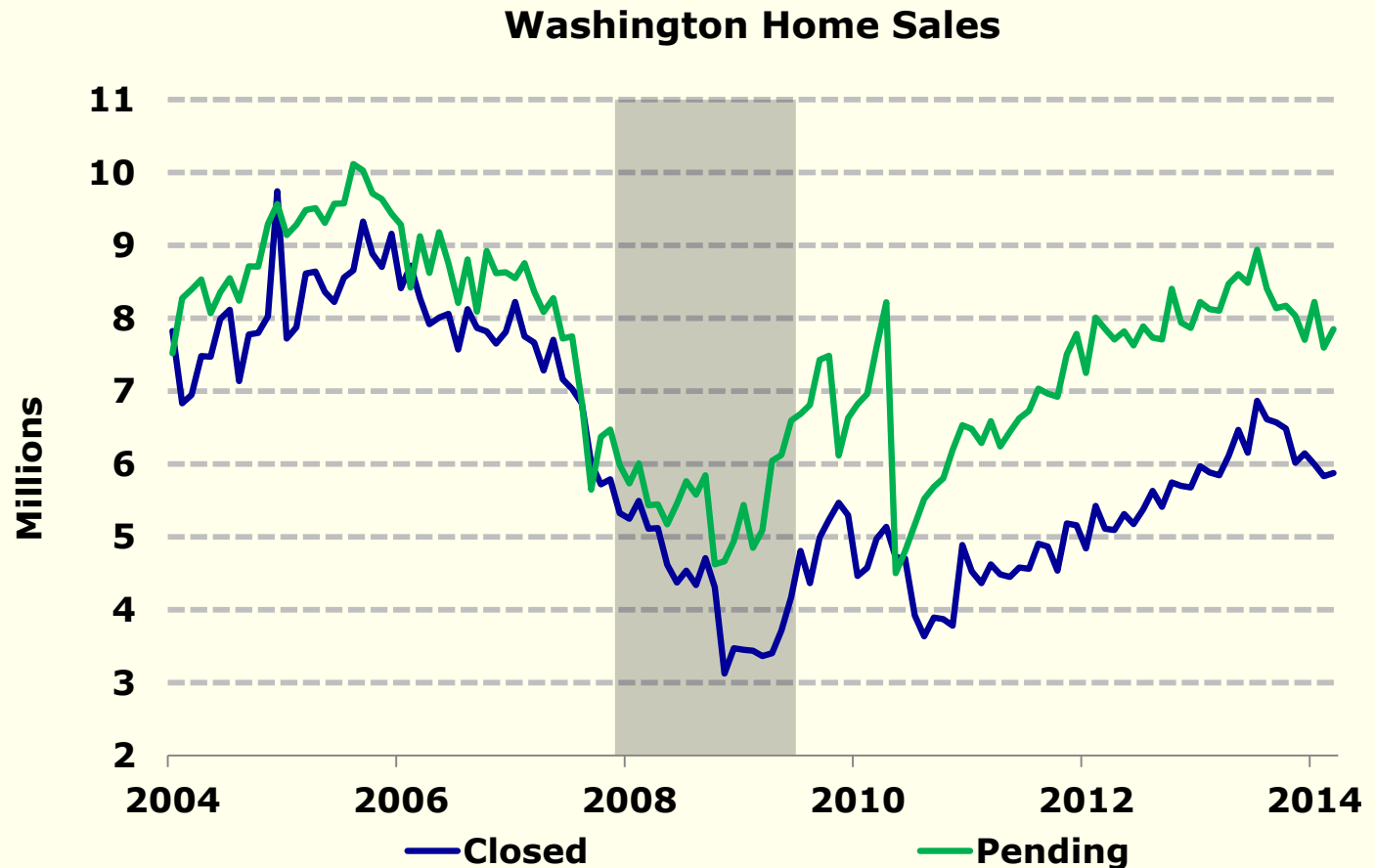
Rising home prices have reduced the number of underwater mortgages



Source: CoreLogic, ERFC, data through 2013Q4



Washington home sales have been trending downward recently





REET base flattening but large commercial sales are still strong

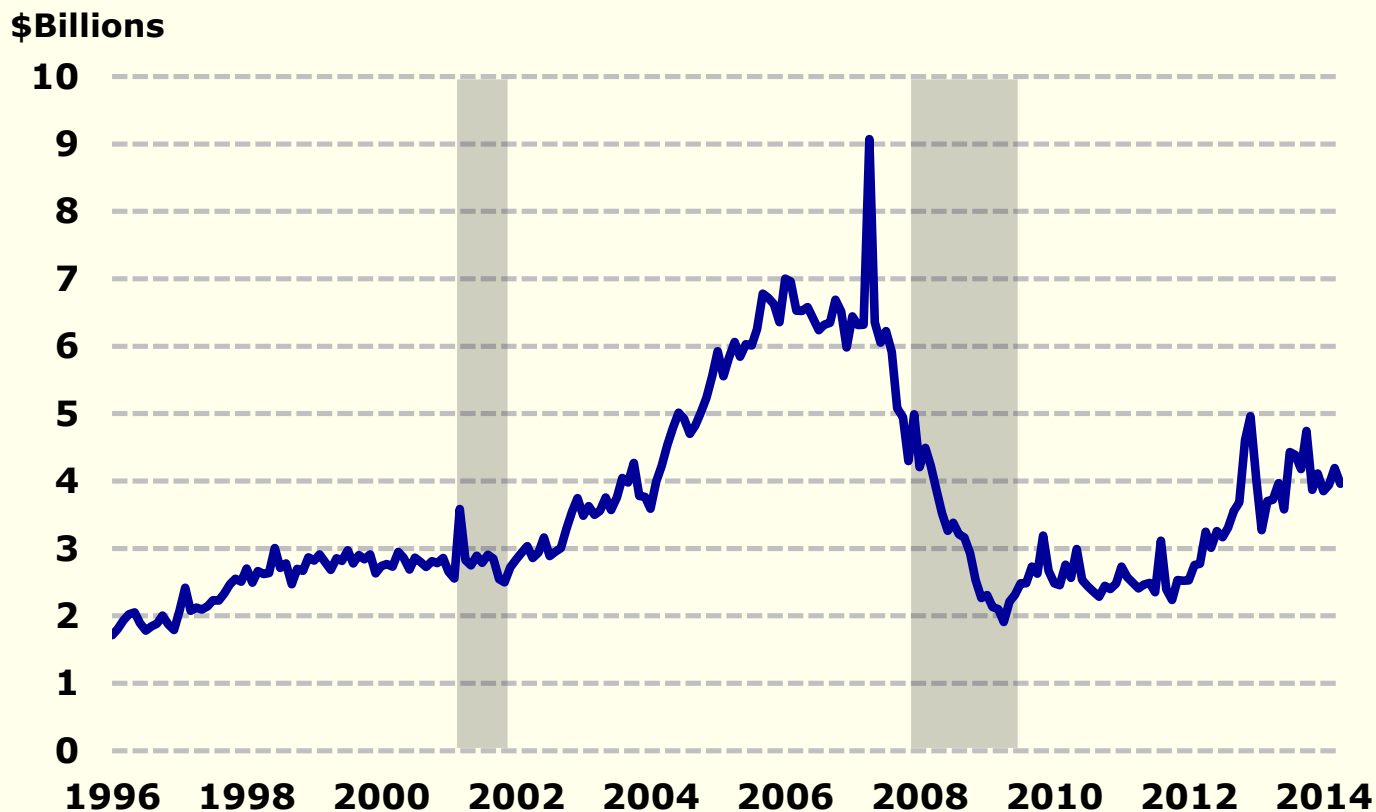
Even after last year's rush in sales of commercial property due to federal tax changes, large commercial sales are still occurring at an above-average rate

Total residential activity has flattened even though prices are strong

Economic Outlook
June 4, 2014

Slide 15

Seasonally Adjusted Taxable Real Estate Excise Activity

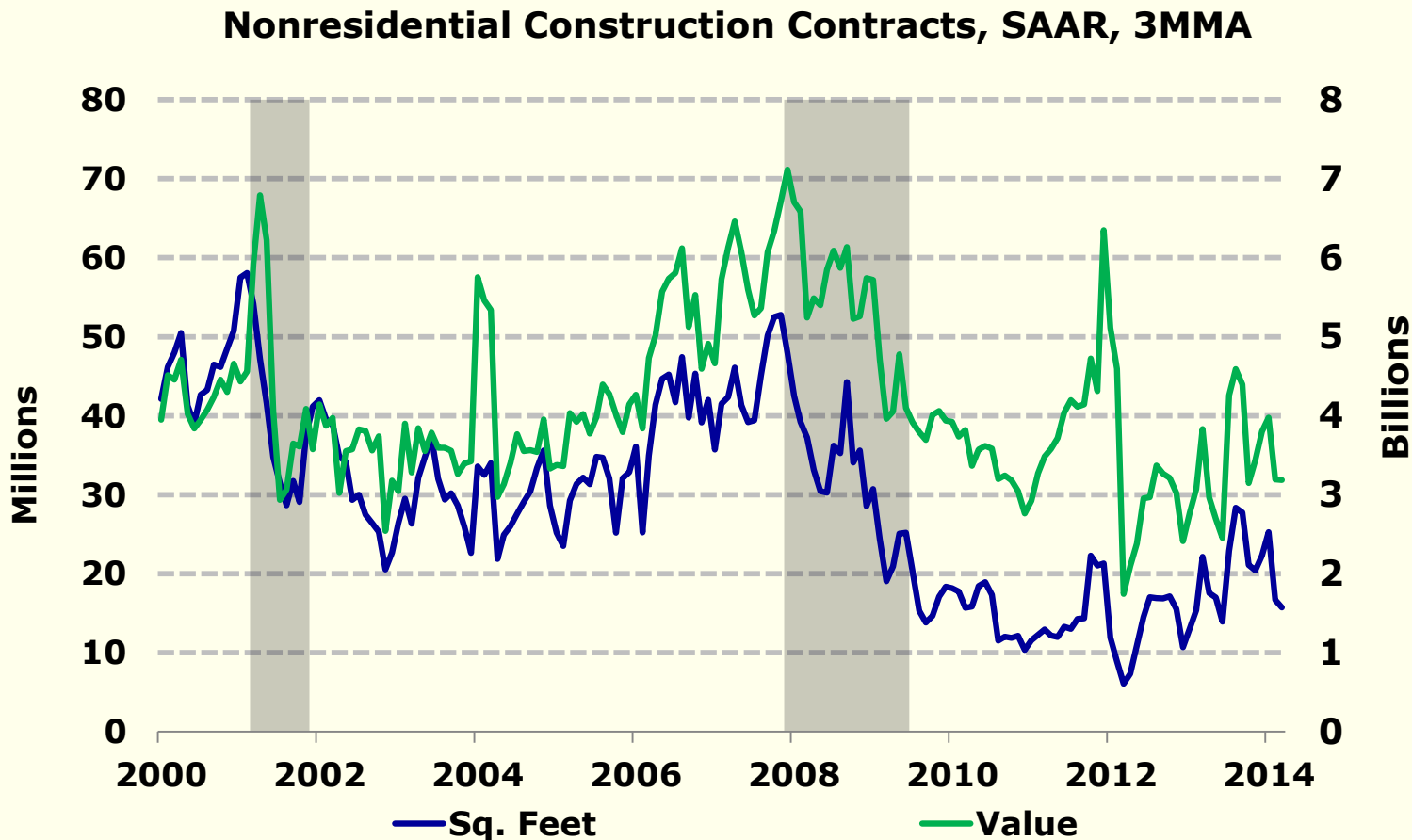


Source: ERFC; Monthly data through April 2014 preliminary



Contract data: non-residential activity volatile but trending up

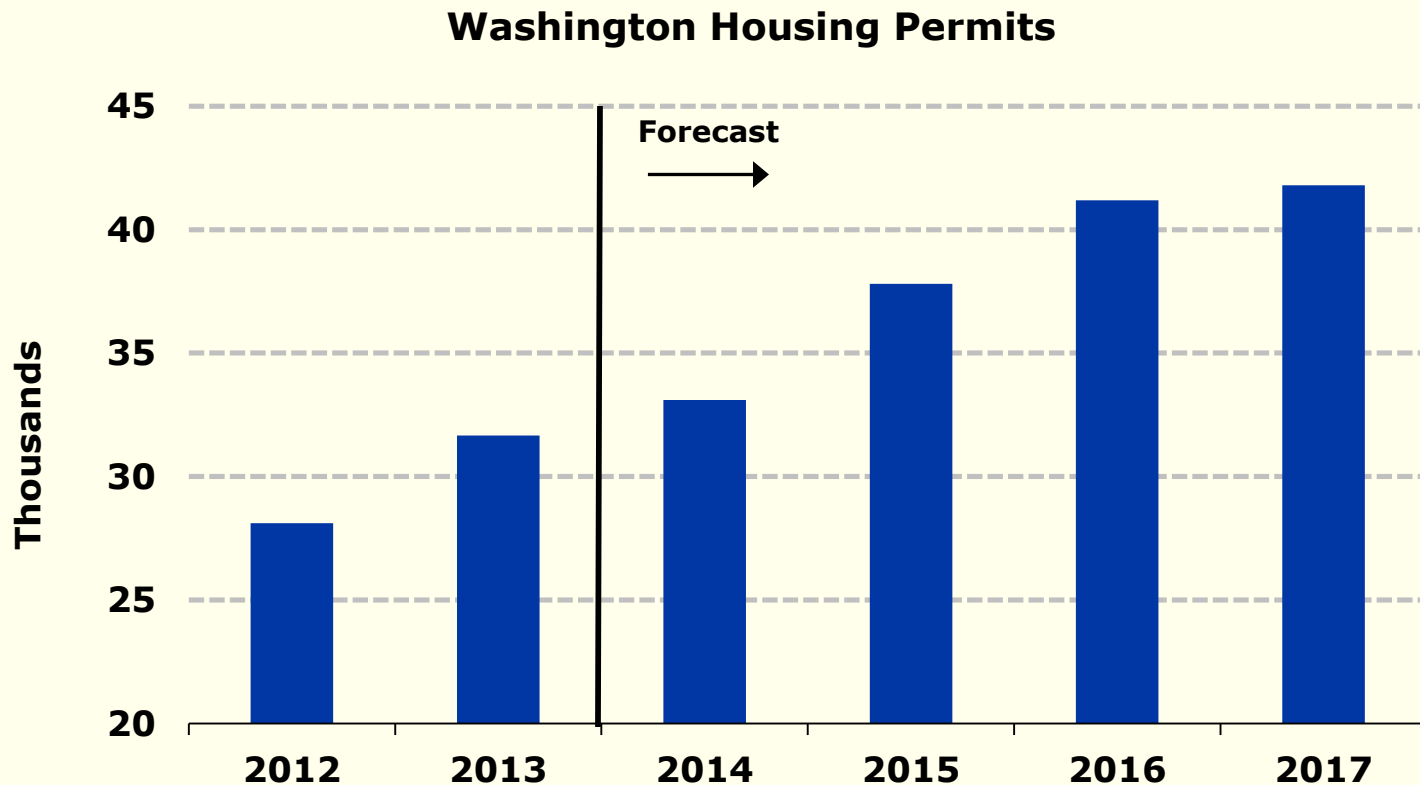
Non-Residential square footage is down 29%, and value is down 17% year over year (3mma).



Source: Dodge, ERFC; data through March 2014

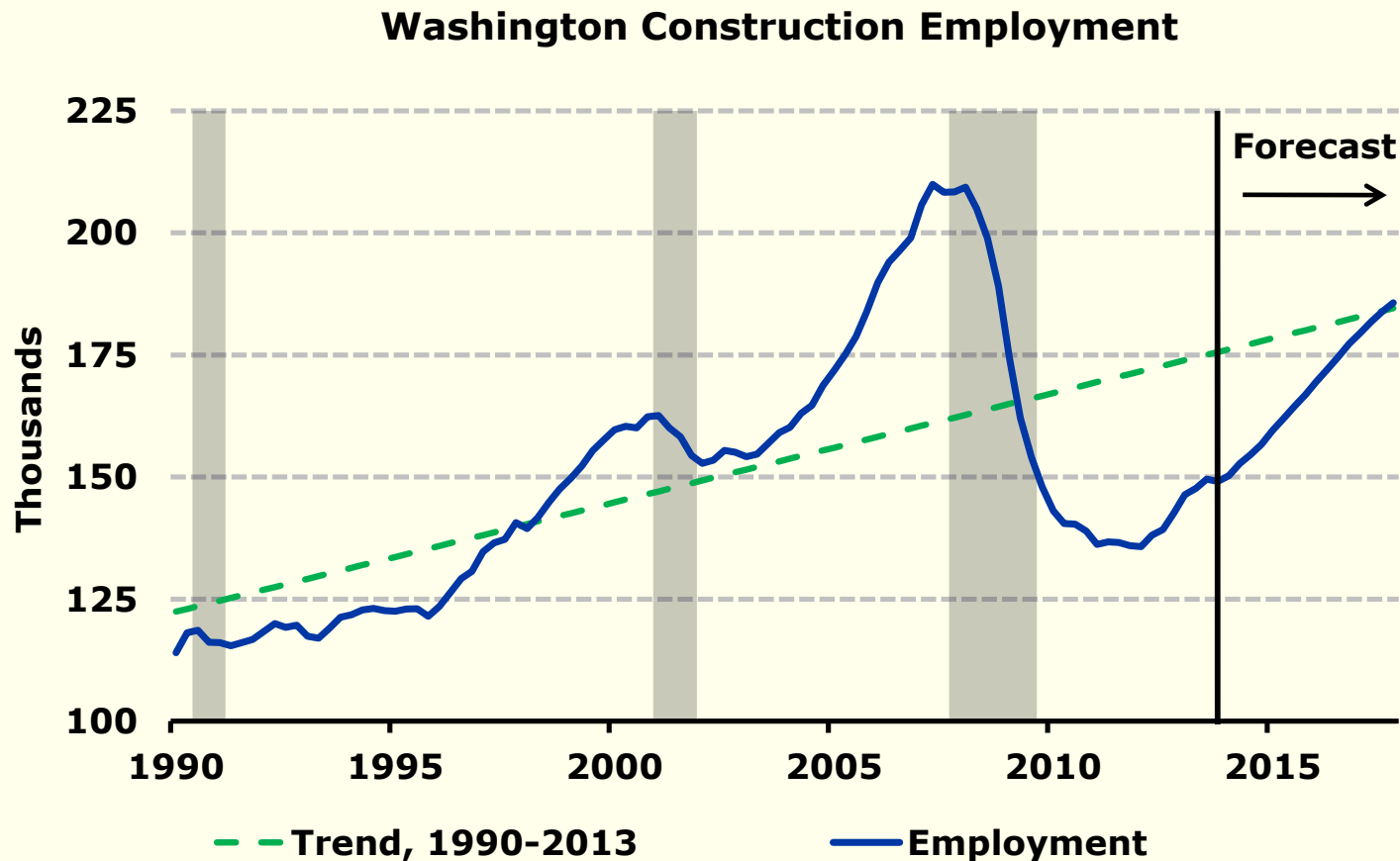


Washington housing permits are expected to increase through 2017





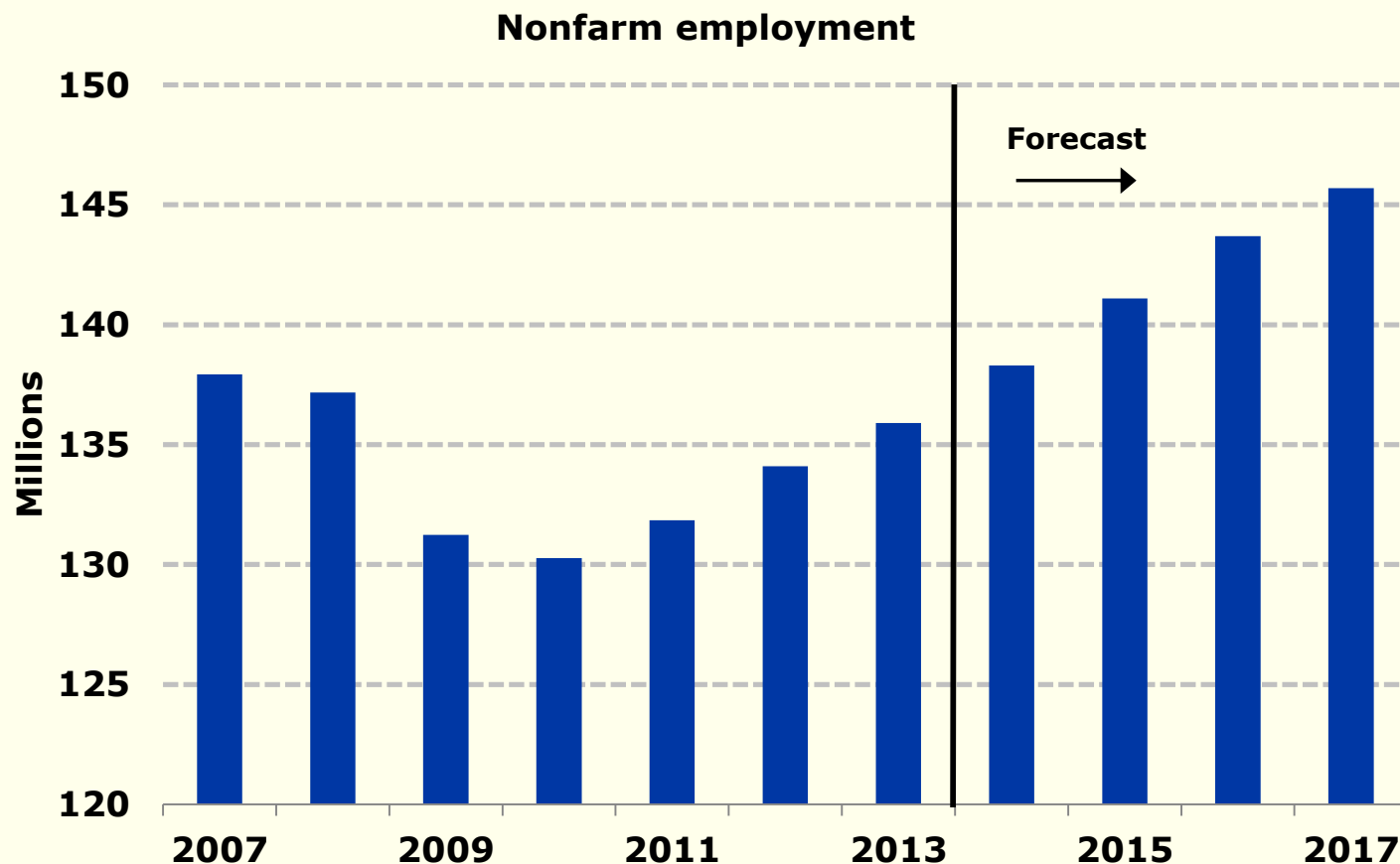
Washington construction employment is recovering





U.S. nonfarm employment is expected to grow 1.7% this year after 1.6% growth in 2013

U.S. payroll employment growth is expected to average 1.8% over 2014 - 2017



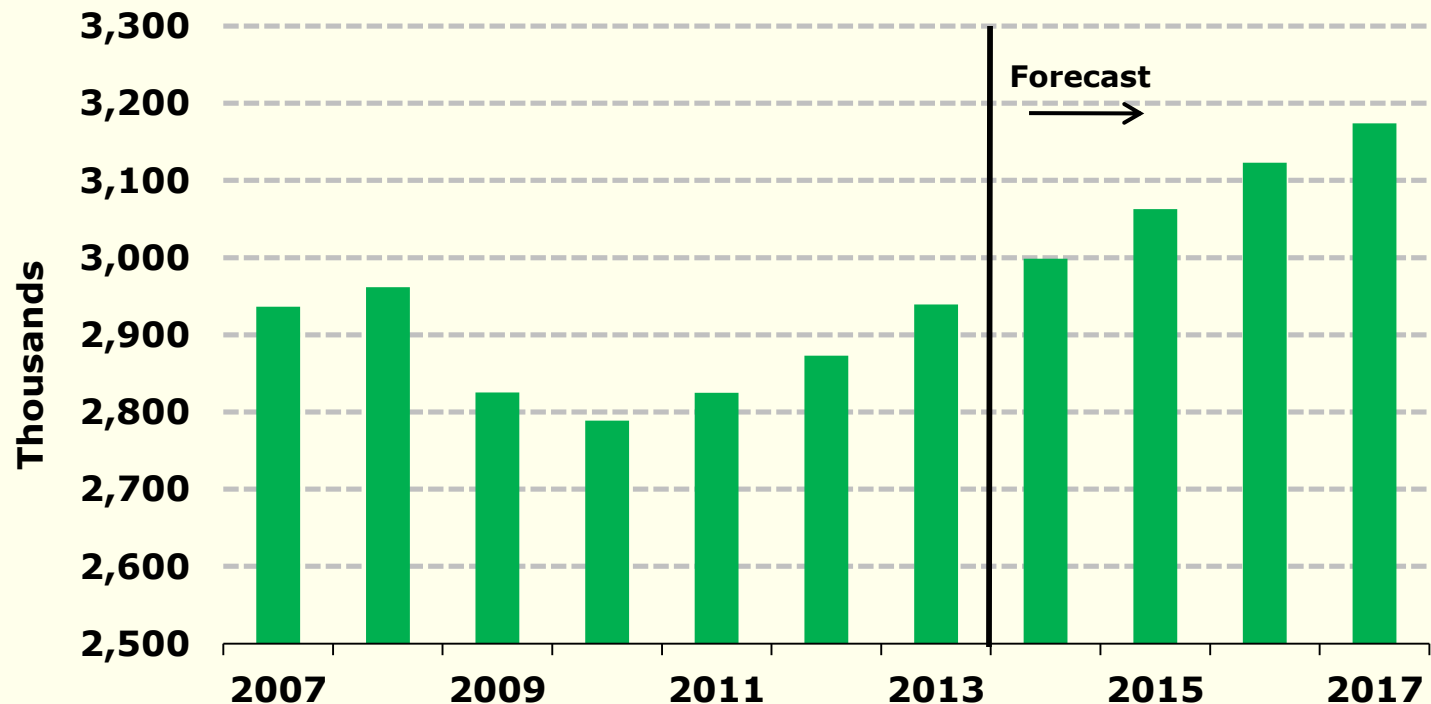
Sources: BLS; ERFC February 2014 forecast



Washington payroll employment growth is expected to average 1.9% over 2014 - 2017

Washington payroll employment growth was 2.3% in 2013 and is forecasted at 2.0% in 2014

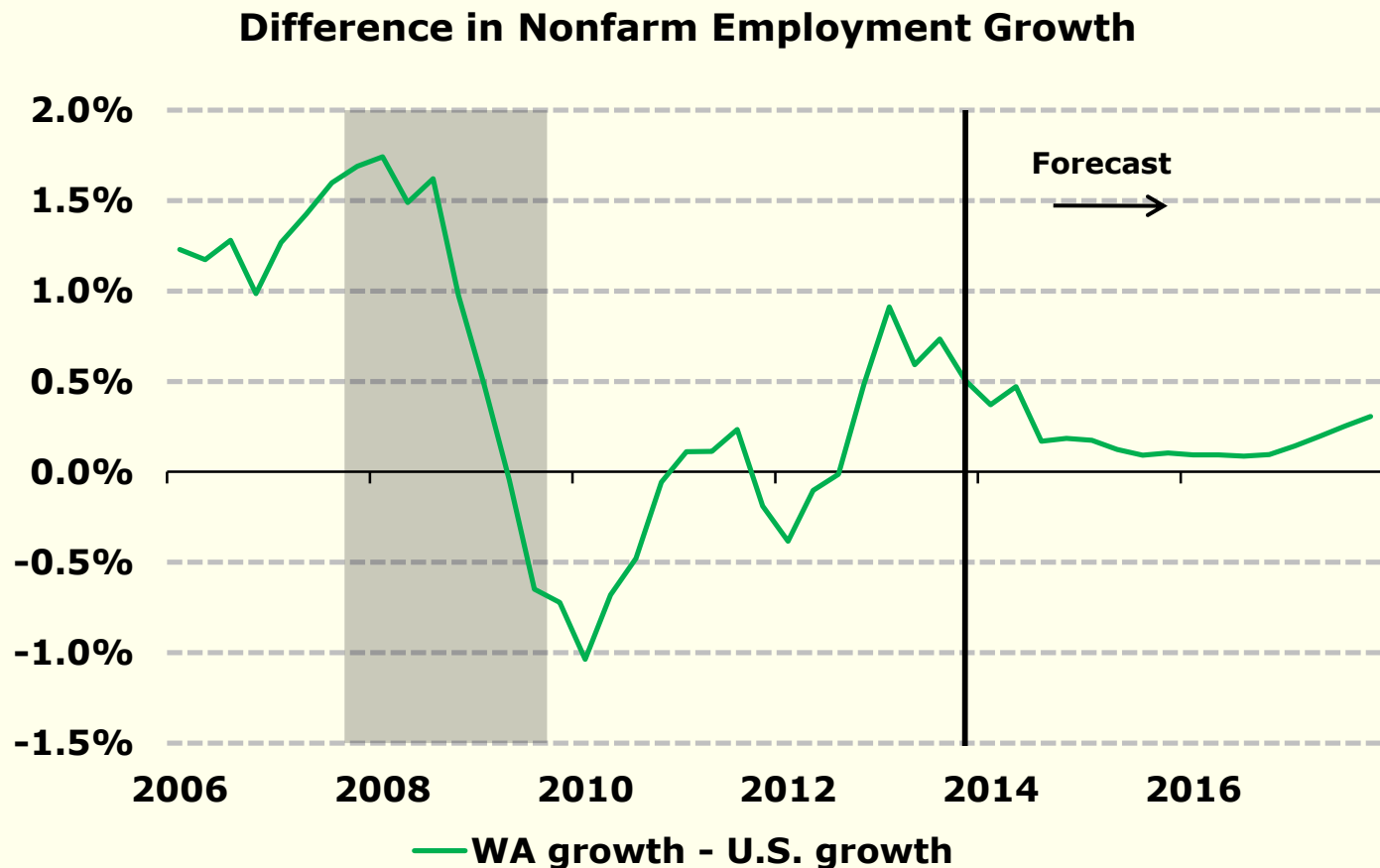
Washington Nonfarm Payroll Employment



Source: ERFC February 2014 forecast; historical data through 2013



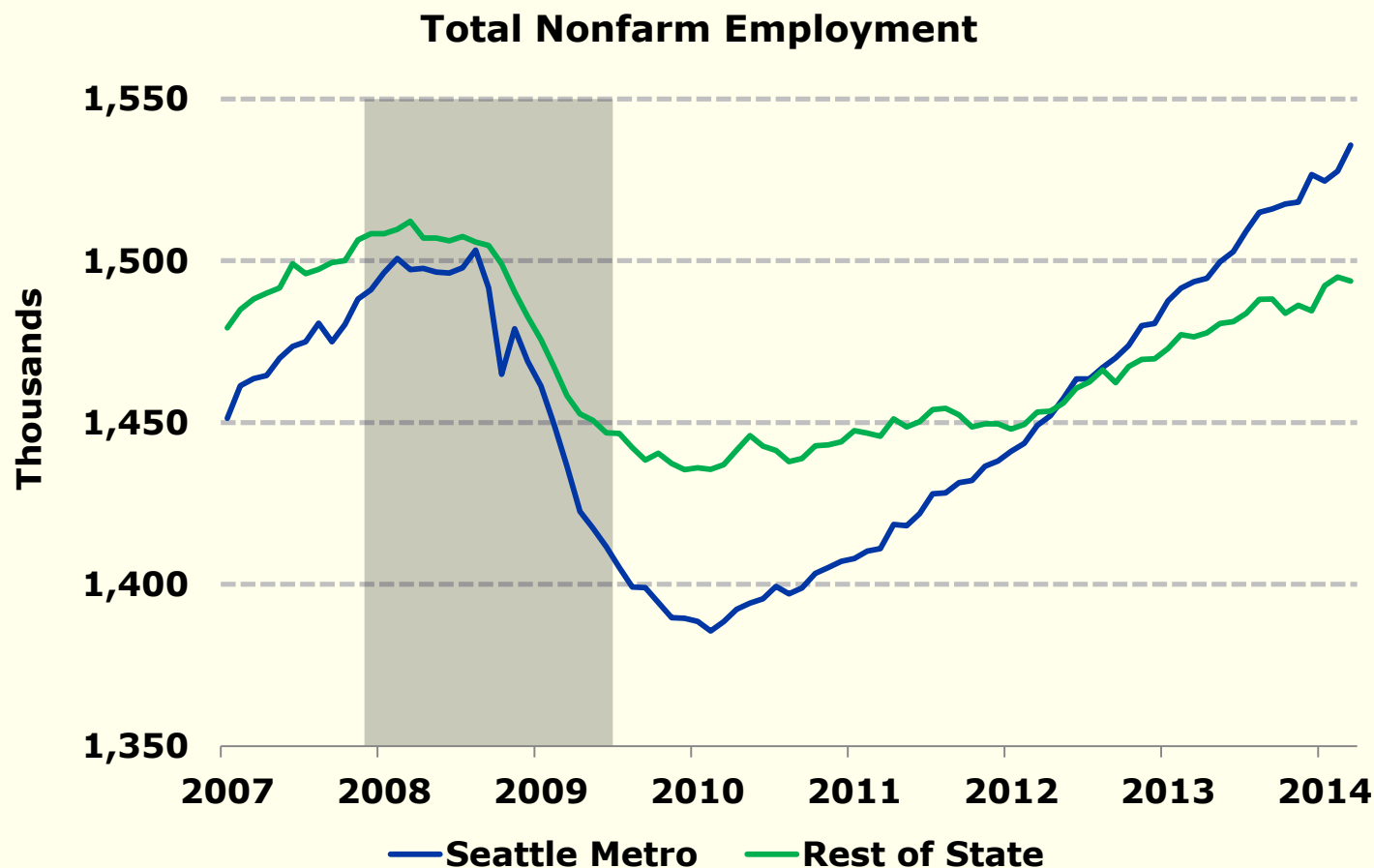
Washington employment will grow slightly faster than the U.S.





Seattle area employment is growing much faster than the rest of the state

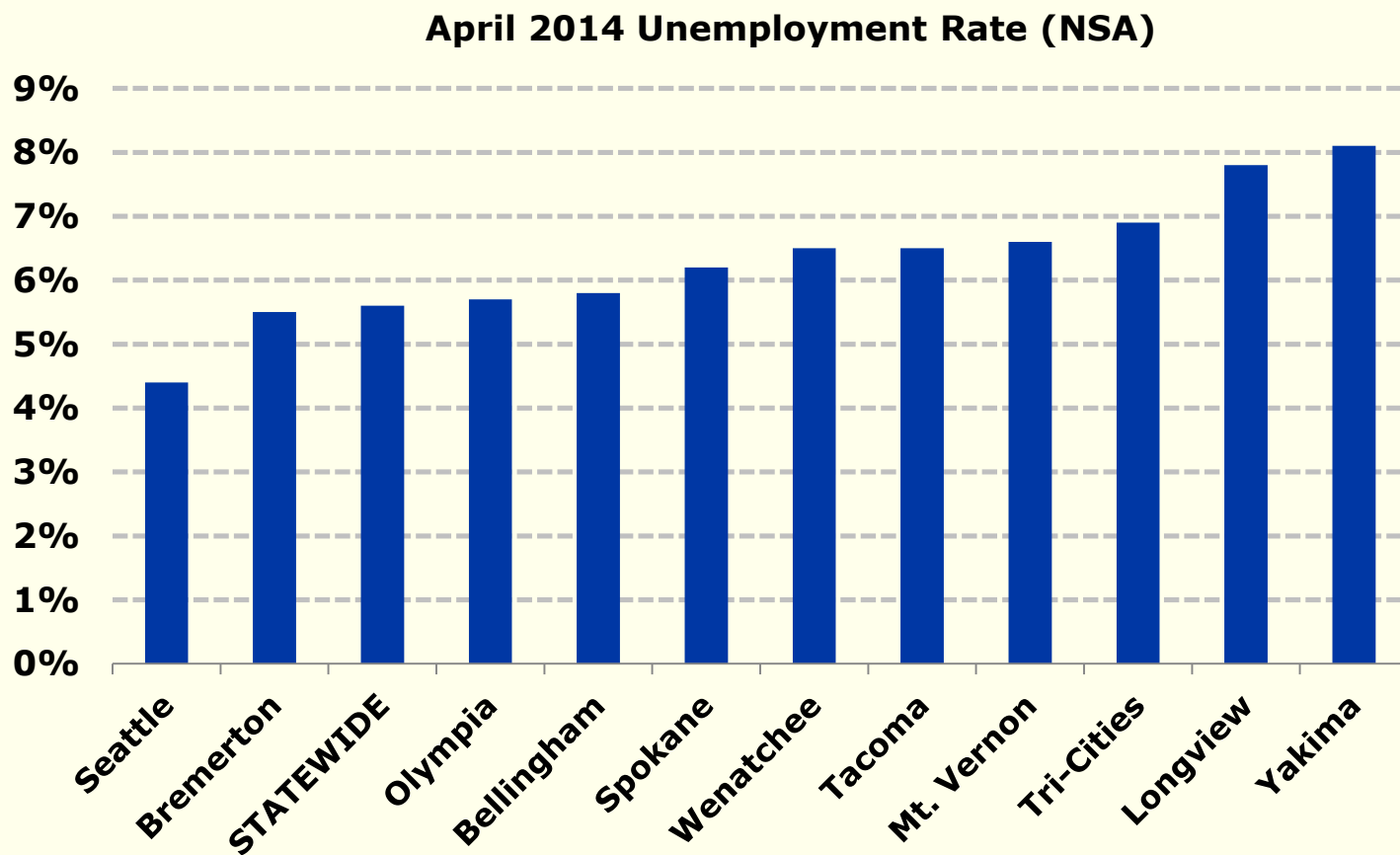
Outside of Seattle metro area, employment is below its pre-recession peak



Source: Employment Security Department, ERFC; data through March 2014

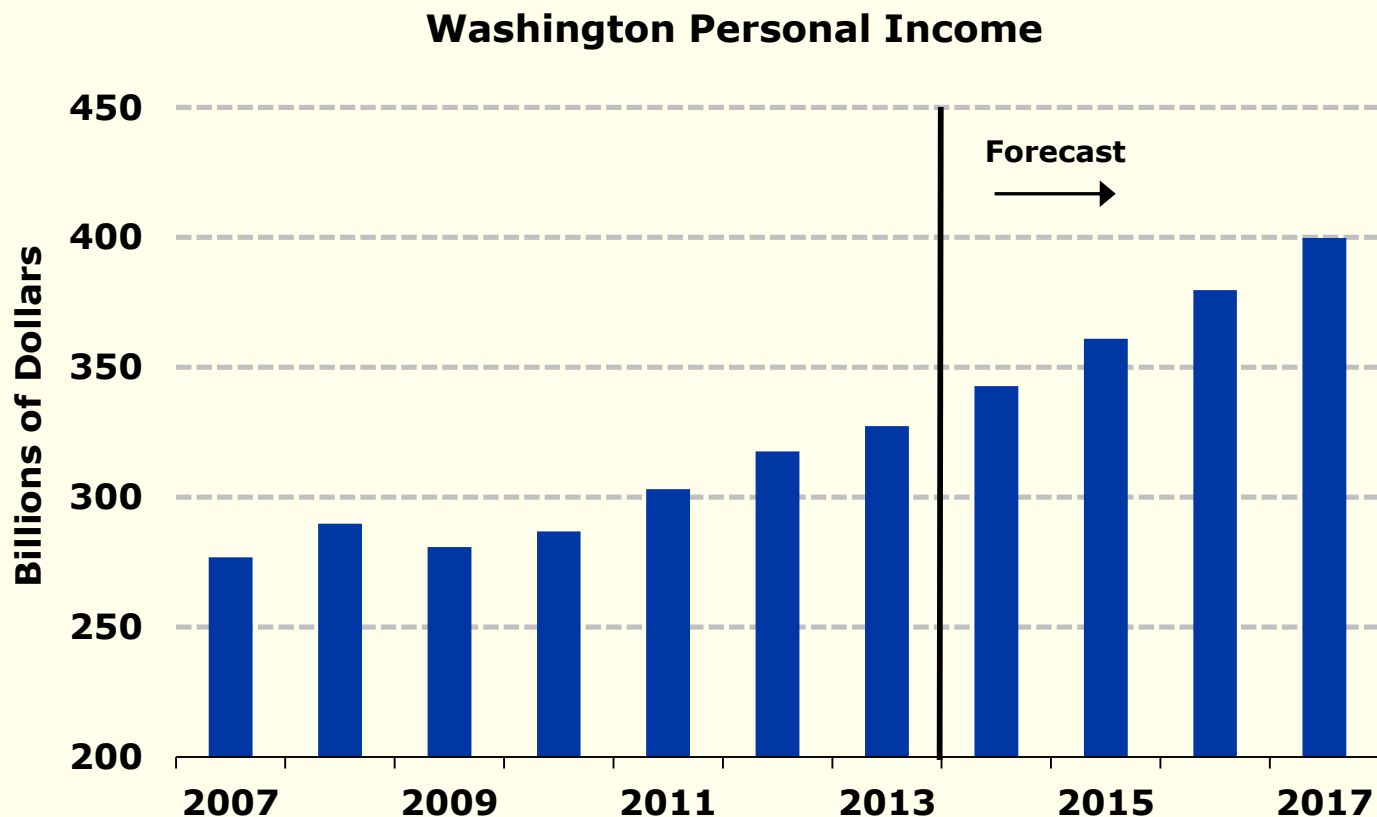


Seattle: lowest unemployment rate of state metro areas



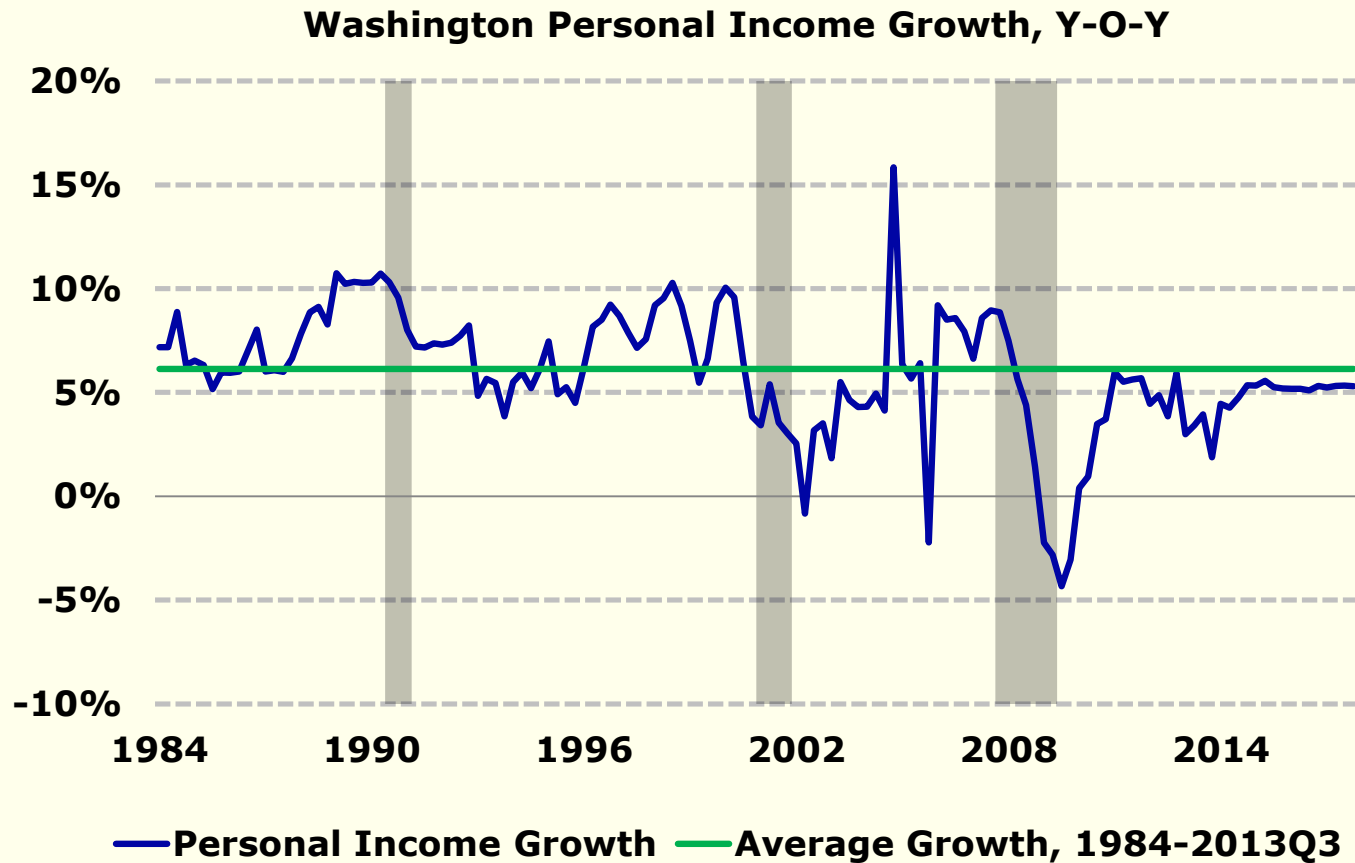


Washington personal income is forecast to average 5.1% annual growth over 2014 – 2017...



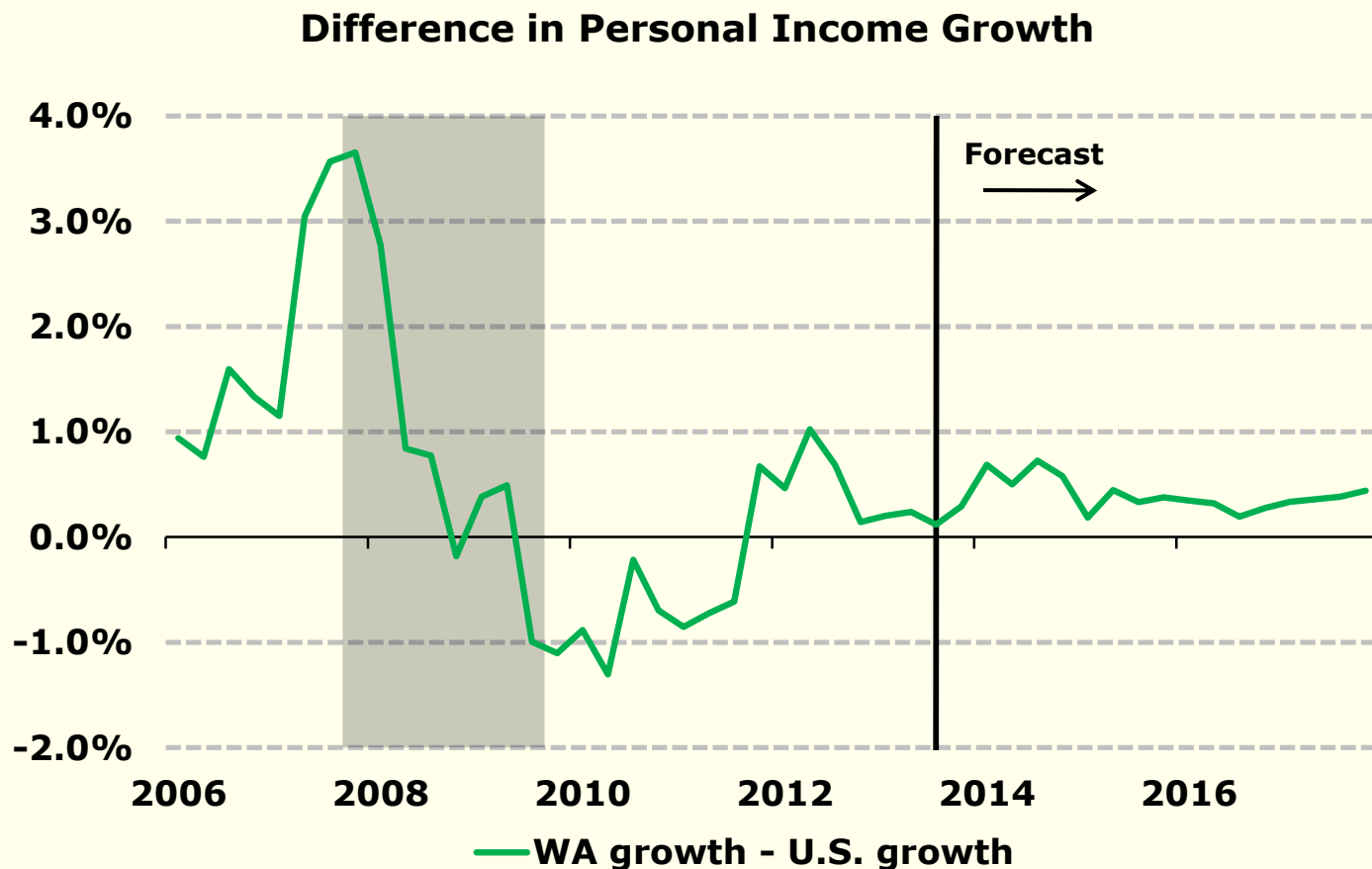


...but personal income is growing at below-average rates





State personal income will grow slightly faster than the U.S.





Seasonally adjusted Revenue Act collections still on an upward trend

Revenue Act taxes are sales, use, B&O, public utility and tobacco products

Adjusted Revenue Act growth Y-O-Y:

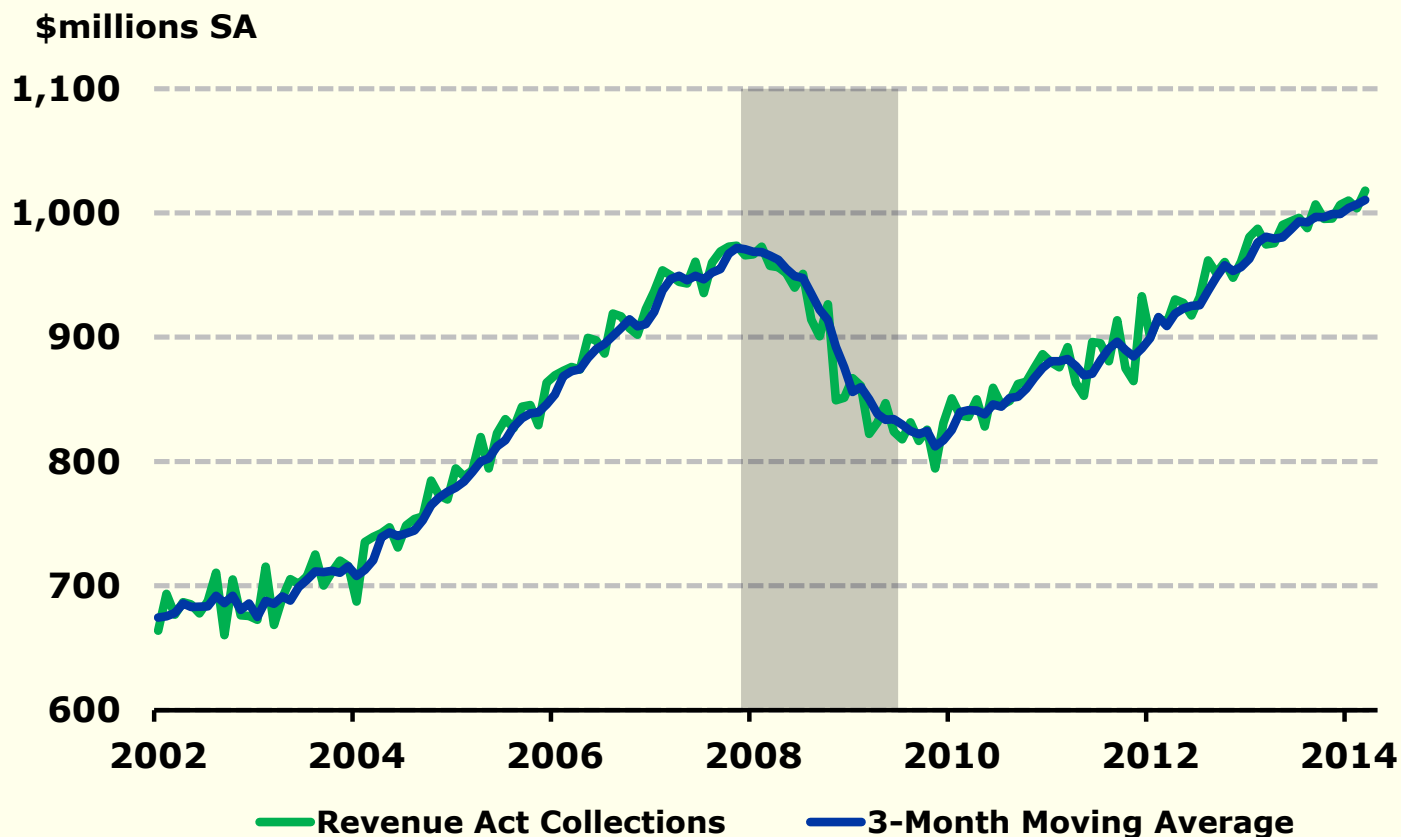
13Q3: 5.2%
13Q4: 4.0%
14Q1: 2.5%

Excluding expired surcharge:

13Q3: 7.5%
13Q4: 7.5%
14Q1: 4.9%

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June 4, 2014

Slide 27



* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated March 2014 activity

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Sales tax collection growth faltered in Q4 2013 but has since resumed

Adjusted sales tax collections were up 4.0% year-over-year for first quarter activity and 4.5% for the fourth quarter of 2013.

Preliminary collections for March activity were up 5.6% year-over-year

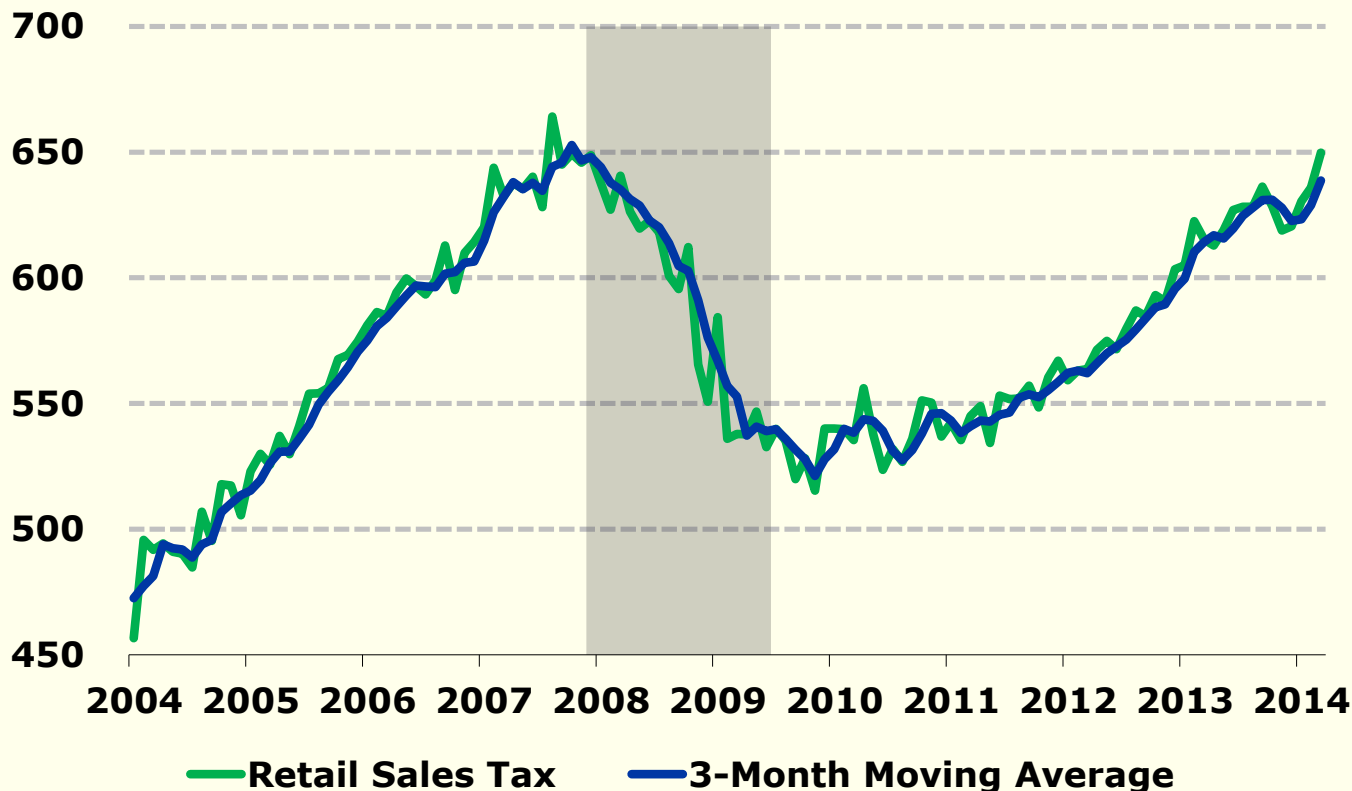
Y-O-Y construction activity growth has slowed

Economic Outlook
June 4, 2014

Slide 28

Washington Retail Sales Tax Receipts

\$Millions, SA



Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change
Source: ERFC; Monthly data through March 2014 preliminary activity

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Surtax sunset reducing B&O but underlying Y-O-Y growth still strong

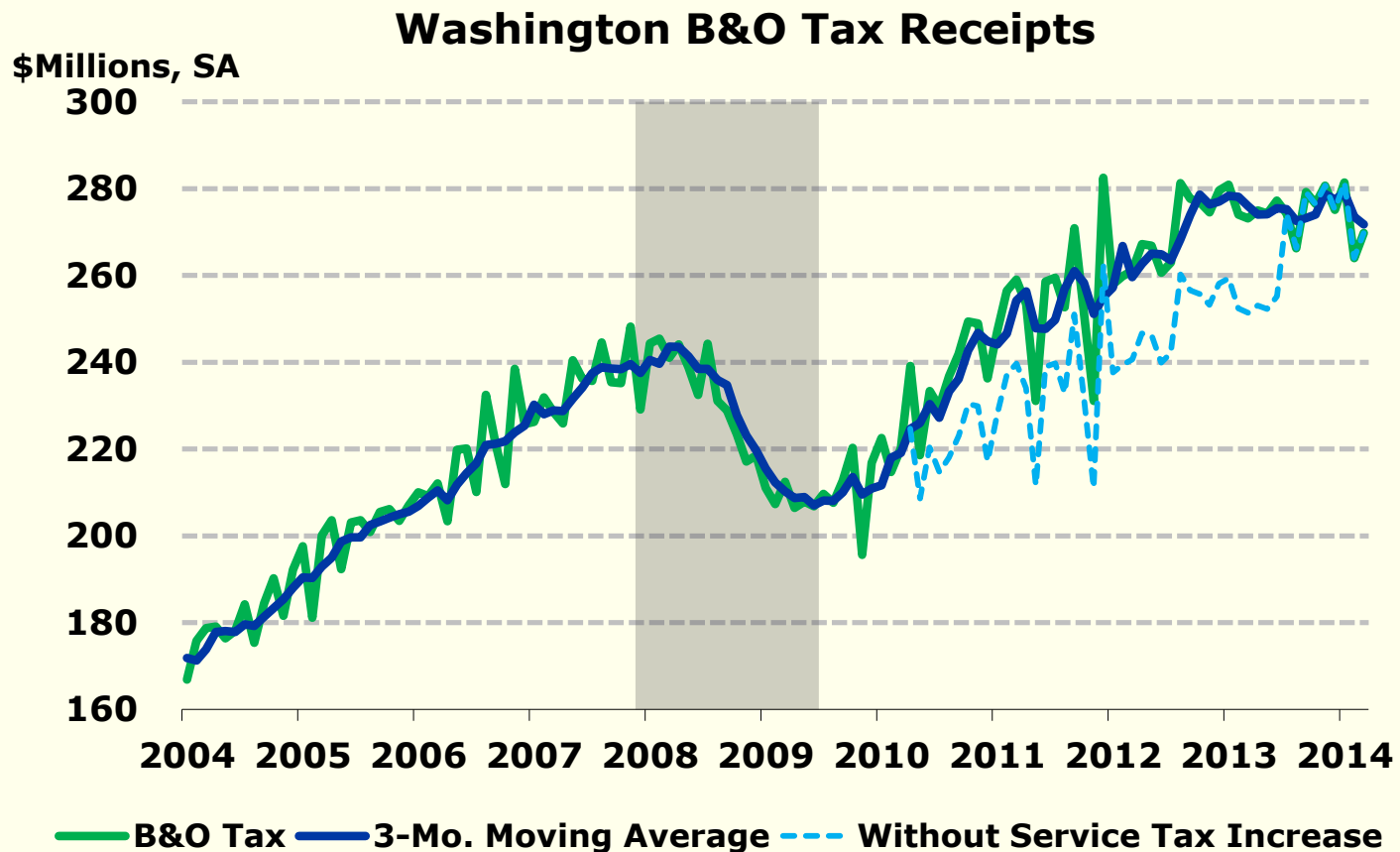
Adjusted B&O tax collections were down 1.5% year over year for first quarter activity

Collections would have grown 7.0% without last year's surcharge

Month-to-month growth has been flat to declining since last fall but the slowdown came after a large jump in revenue from spiking gas prices

Economic Outlook
June 4, 2014

Slide 29



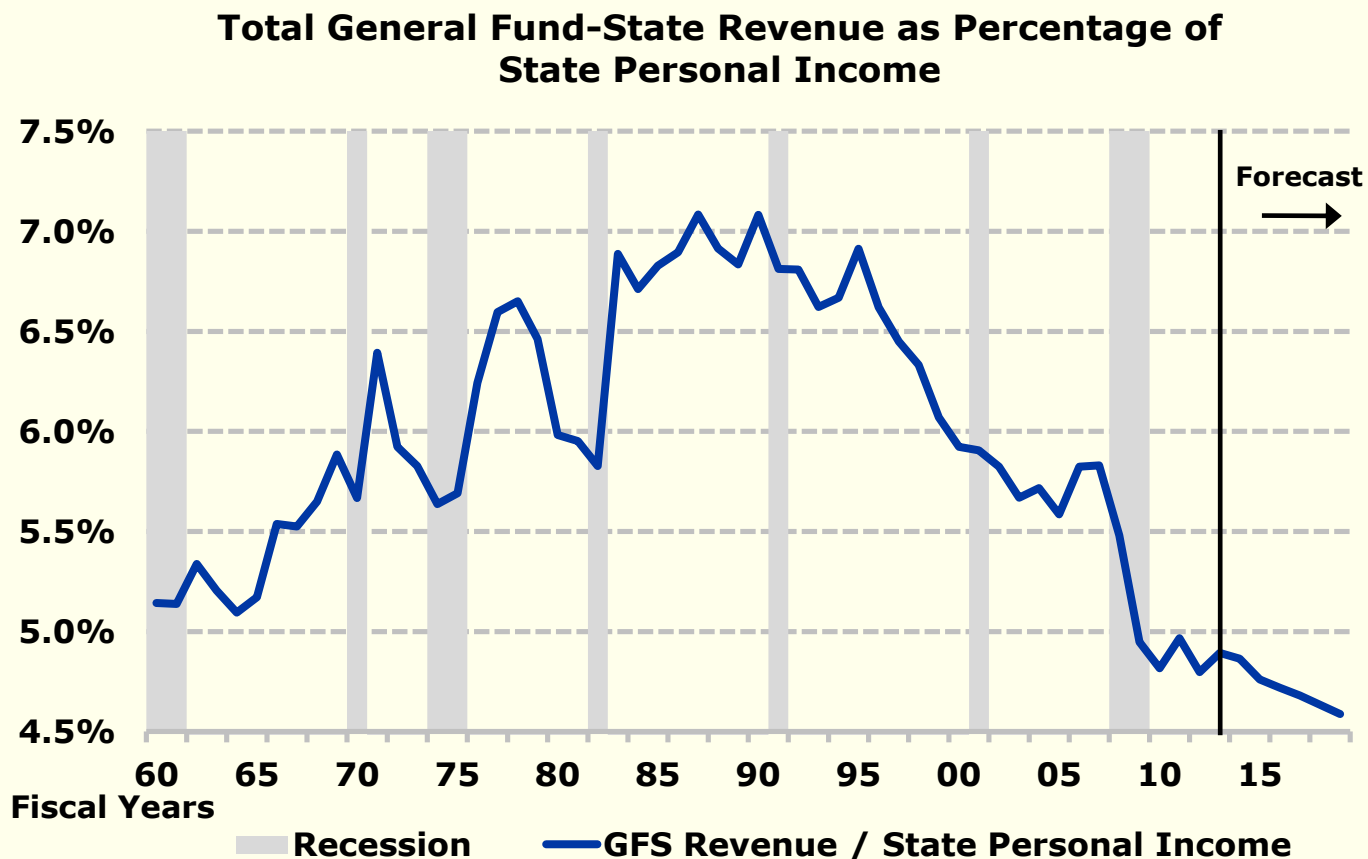
Source: ERFC; Monthly data through March preliminary activity

Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds

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GF-S revenue as share of personal income forecasted to reach record low



*Current definition of Revenue Act

Source: ERFC; data through FY 2013, February 2014 forecast



Conclusion

- Moderate growth in both Washington and the U.S. is expected through the next biennium
- We expect the Washington economy to be slightly stronger than the U.S. economy
- The level of uncertainty in the forecast remains elevated, with considerable downside risks



Questions



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